Testimony of
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at FCA Meeting on Scope of Lending
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Good morning, my name is Donnie Winters and I am CEO of Farm Credit Services of Mid-America, an agricultural credit association that serves Ohio, Indiana, Kentucky and Tennessee. We currently have $7.2 billion in loans outstanding to over 60,000 customers.

The topic of today's hearing is extremely important to our association and its customers. There are over 285,000 farmers in our four states. Of these, 80 percent gross less than $40,000 per year from their farming operation. Only 11 percent gross over $100,000 and less than 5 percent gross $250,000 or more—the figure that many agricultural economists use as a measure of a full-time farming operation. As you can see, we serve an area that is dominated by farms where the farmer is also engaged in off-farm employment.

I will address the specific questions we were asked to address later in my testimony. But first, I want to share five key facts that are the basis for my response.

The first and probably most important is the preamble to the Farm Credit Act of 1971. As I'm sure you know, there was a national blue ribbon committee formed in the late 1960's to look at the issue of the adequacy of credit to rural America and the role that the Farm Credit System (System) should play in meeting those credit needs. The result of the committee's work was the Farm Credit Act of 1971, the most recent attempt to modernize the System's charter.

The preamble to the act reads as follows: "To further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residents, and to associations and other entities upon which farming operations are dependent, to provide for an adequate and flexible flow of money to rural areas, and to modernize and consolidate existing farm credit law to meet current and future rural credit needs, and for other purposes."

Many times the discussion around the mission of the System focuses only on a narrow interpretation of the first of the three objectives outlined in the preamble—to provide credit to farmers and ranchers. But what is missed in that discussion is that the other two objectives—providing an adequate and flexible flow of money to rural areas and meeting current and future rural credit needs—are equally stressed by the preamble. Much of what critics describe as the System straying from its mission is in fact an effort to meet the balance of the objectives which Congress itself set out in the Act.

A second fact that needs to be remembered is that all Farm Credit entities are directed and controlled by farmer customers. Service to any market segment is carried out under board policy direction with regular reporting on results. These farmer board members are uniquely positioned to know just what their marketplace needs to meet the System's mission. They are also an effective control to keep the association and its leadership focused on serving first and foremost agriculture and rural America. Any effort to stray from that focus would not be supported by these farmer board members—nor the farmer customers who elect them.

A third point is that all System institutions are examined by FCA. This exam focuses both on safety and soundness and public mission issues. Findings are shared directly with the boards of directors. This provides a very powerful additional control to prevent associations from straying from their mission.

A fourth key point is that the best method of extending constructive credit, as again called for by the Act, is to be the total credit provider for a customer. This allows the farmer and the lender to structure the best package that meets his or her total credit needs and to incorporate the needed risk management measures based again on the total operation. It also allows the customer to get the best possible interest rates as nearly all lenders today provide some reduction of rates as borrowing levels increase to recognize the efficiencies experienced by the lender. To force any farmers, whether they also have an off-the-farm job or not, to go to multiple lenders to get their full credit needs met denies them access to the most constructive and lowest cost source of credit.

A final point in this area is the impact that being able to meet the full credit needs of a part-time farmer can have on our ability to further serve young, beginning and small farmers. At the hearing the Agency held last year on serving YBS farmers, a paper was presented by the Food and Agricultural Policy Research Institute entitled “What’s It Take? Getting Started in Farming Today”. This paper contains much that is important to our discussion today as well. But one main point was the critical importance of off-farm income to anyone hoping to get started in farming. The System should certainly do anything possible to help provide those other sources of income in rural America so that small and beginning farmers can meet their family needs while building their farming programs.

With this background, I would now like to address your specific questions.

1. Should FCA retain or change its current definition of bona fide farmer? I do not believe any change in definition is necessary. In the numerous scope of lending discussions that I have been part of over the years this definition was not a significant issue.

2. What limits, if any, should FCA regulations place on lending for farmers’ other credit needs? I do not believe there should be any limits placed on the System in meeting the full credit needs of farmers. It would be contrary to the preamble of the Act and would ignore the input and control of the local boards. Limits would also preclude the most effective form of extending constructive credit, and increase the farmers’ costs of borrowing.

3. How should FCA regulate access to other credit needs of eligible farmers who derive most of their income from off-farm sources? The current regulatory restriction between full-time and part-time farmers should be removed. It is contrary to both the preamble and the Act itself and, in fact, is discriminatory toward a set of clearly eligible customers. Rather than try to prescribe some limits through regulation, FCA should allow association board policy and the ongoing examination process to develop appropriate limits in the widely varying marketplace which the System

serves. This will allow the System to more effectively meet its charge to provide a flow of credit to rural America.

4. What changes if any should be made to the definition of "moderately priced" rural housing? The recent changes in how Farmer Mac calculates it's moderately priced housing number and the effect that has on our limits has done much to address the concerns we have had in this area in the past. There remains, however, the issue of having to include all sales when conducting special studies of a market area. New "moderate homes" tend to be considerably more expensive than older homes due to them being larger and having more amenities. The regulations should allow studies to be based on homes built in the past five years which will allow upper limits to better keep pace with the current marketplace.

We sincerely appreciate the opportunity to be heard on these issues, which as I pointed out earlier, are of utmost importance to our marketplace and our ability to serve its credit needs.